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FISCAL IMPACT STATEMENT

LS 6865 | **NOTE PREPARED:** Jan 12, 2004
BILL NUMBER: HB 1316 | **BILL AMENDED:**

SUBJECT: Supplemental Economic Development Income Tax.

FIRST AUTHOR: Rep. Buck | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: The bill authorizes a county to increase the County Economic Development Income Tax (CEDIT) to provide property tax relief for homeowners related to part or all of the inventory tax exemptions and deductions that reduce the total taxable assessed value in the county. The bill allows part of the tax devoted to homestead property tax relief to be raised from nonresidents who have a principal place of business in the county.

Effective Date: Upon passage; July 1, 2004.

Explanation of State Expenditures: Under the bill, the Department of State Revenue and the Budget Agency would require additional administrative time to determine the certified distribution of counties that could increase their CEDIT to provide property tax relief as described below.

Explanation of State Revenues:

Explanation of Local Expenditures: County auditors would have additional administrative duties under the bill. If a county increases their CEDIT rate for purposes allowed under the bill, county auditors would be required to determine the following:

(1) the amount of the certified distribution that is available to provide an increased homestead credit percentage for the year.

(2) the amount of uniformly applied homestead credits for the year in the county that equals the amount determined under (1); and

(3) the increased percentage of homestead credit counties determined under (2).

Explanation of Local Revenues: The bill would provide counties with two options to replace revenue from increased ad valorem property tax on homesteads that result from property tax relief from the following:

(A) The expansion of the statewide interstate commerce exemption (IC 6-1.1-10-29) to include raw materials and work in process that will become part of a finished good to be shipped out of state.
(B) The county option deduction on inventory at 100% of AV ending with tax year 2005 pay 2006 (IC 6-1.1-12-41).
(C) The statewide deduction on inventory at 100% of AV beginning with tax year 2006 pay 2007 (IC 6-1.1-12-42).

Option 1: Under current law, IC 6-3.5-7-5(p), counties may impose CEDIT at a rate of 0.25% above the combined maximum rate of CEDIT and the County Option Income Tax (COIT) or CEDIT and the County Adjusted Gross Income Tax (CAGIT) for the mitigation of increased ad valorem property taxes on homesteads that result from the statewide and county inventory deductions (B and C above.)

Under the bill, the above provision allowed under current law would be expanded to include the expansion of the statewide interstate commerce exemption (A). The bill would permit a county to mitigate any part, as opposed to all, of the homeowners' tax shift from inventory.

Option 2: If a county has imposed its maximum base tax rate of 0.25% above the allowed CEDIT rate under current law and the county still requires additional revenue to provide homestead credits to mitigate inventory tax shifts, the county would be able to adopt an ordinance to impose or increase CEDIT with a supplemental tax rate. The supplemental tax rate allowed would be not more than the rate necessary to mitigate any remaining increased ad valorem property taxes on homesteads that result from the above exemptions and deductions (A), (B), or (C). Under the bill, the supplemental rate would apply to residents of the county and workers in the county even if the workers live in another adopting county.

The bill would allow the supplemental rate to be imposed at a combined rate that exceeds the maximum combined rate for CEDIT and COIT or CEDIT and CAGIT allowed under current law by the amount necessary to account for the increased property taxes on homesteads from (A), (B), or (C).

Background: Based on the April 10, 2003, Technical Committee Revenue Forecast, if all counties imposed CEDIT, a 0.25% increase in the tax rate would generate an estimate of $296.5 M **statewide** in FY 2005. There are currently 67 counties that impose CEDIT. Therefore an increase in every CEDIT county's tax rate by 0.25% would give a lower estimate than above.

Under current law, counties with CAGIT and CEDIT may not exceed a combined rate of 1.25% with certain exceptions. The COIT and CEDIT combined rate may not exceed 1% with certain exceptions. Analysis indicates about five counties would exceed the current combined rate caps in CY 2004. Therefore, if it were decided to replace all exemptions and deductions under the bill, these five counties would need to adopt a supplemental rate equal to the rate that exceeds the current rate cap.

The CY 2004 certified distributions are: $420.2 M for COIT, $347.4 M for CAGIT, and $172.7 M for CEDIT.

State Agencies Affected: Department of State Revenue, State Budget Agency.

Local Agencies Affected: Counties that have adopted CEDIT.

Information Sources: State Budget Agency, *State of Indiana General Fund Property Tax Replacement Fund Rainy Day Fund Fiscal Year Ending June 30, 2003 And Summaries; Revenue Technical Committee Forecast, April 10, 2003*; *Indiana Handbook of Taxes, Revenues, and Appropriations FY 2003.*

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